

Message Text

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SUBJECT: ACCOMMODATION EXCHANGE RATE

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1. CAREFUL STATISTICAL ANALYSIS OF THE FAMILY BUDGETS OF EMBASSY PERSONNEL SHOWS THAT, IN THE RANGE BETWEEN 55 ZLOTIES TO \$1.00 AND 33.2 ZLOTIES TO \$1.00, THE FLOW OF DOLLARS TO THE U.S. TREASURY WILL BE MAXIMIZED AT AN ACCOMMODATION RATE OF 55 ZLOTIES TO \$1.00. NON-DISCRETIONARY ZLOTY EXPENDITURES TOTAL NOT MORE THAN 15 PER CENT OF CURRENT AVERAGE ZLOTY EXPENDITURES. THE ITEMS CONSIDERED ON-DISCRETIONARY ZLOTY EXPENDITURES ARE TELEPHONE BILLS, AUTOMOBILE INSURANCE AND OCCASIONAL REPAIRS, SALARIES OF POLISH EMPLOYEES OF THE EMBASSY COMMISSARY, SALARIES OF DOMESTIC HELP EMPLOYED BY WORKING MOTHERS WITH SMALL CHILDREN, EMERGENCY MEDICAL AND DENTAL CARE, AND HEAVY STAPLE FOODS SUCH AS POTATOES. AT A RATE OF 33.2 ZLOTIES TO \$1.00 BY U.S. PERSONNEL STATIONED IN POLAND, DISCRETIONARY ZLOTY EXPENDITURES WOULD BE NEGLIGIBLE.

2. TOTAL NET ACCOMMODATION-RATE TRANSACTIONS IN 1974 WERE 29 MILLION ZLOTIES WHICH, AT THE PREVAILING RATE OF 65 ZLOTIES TO \$1.00, EQUATED \$446,150. AT THE RATE OF 33 ZLOTIES TO \$1.00, ZLOTY EXPENDITURES BY EMBASSY PERSONNEL WOULD BE REDUCED TO 15 PERCENT OF THE 1974 TOTAL OR 4,350,000 ZLOTIES PER ANNUM FOR A RETURN TO THE TREASURY OF \$131,818.

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ACCOMMODATION-RATE EXCHANGES AND DOLLAR FLOW TO THE U.S.

TREASURY AT THESE AND VARIOUS INTERMEDIATE RATES ARE SHOWN
IN THE FOLLOWING TABLE:

NET ACCOMMODATION EXCHANGE			
	ZLOTIES	RATE	\$
1974 (ACTUAL)	29 MILLION	65-1	\$446,150
1976	22 MILLION	55-1	\$400,000
1976	12 MILLION	50-1	240,000
1976	8 MILLION	50-1	\$177,780
1976	6 MILLION	40-1	\$150,000
1976	4.35 MILLION	33-1	\$131,818

3. THE SHARP DECREASE IN ESTIMATED EXCHANGES BETWEEN 55 ZLOTIES TO \$1.00 AND 45 ZLOTIES TO \$1.00 WOULD OCCUR BECAUSE OF THE AVAILABILITY OF GOODS FOR DIRECT DOLLAR PURCHASE IN STATE-OWNED STORES AT RATES OF EXCHANGE EQUIVALENT TO BETWEEN 45 AND 55 ZLOTIES TO \$1.00. IN AN EFFORT TO ATTRACT CONVERTIBLE CURRENCIES, THE POLES ARE EXPANDING THE NETWORK OF HARD-CURRENCY OUTLETS, NOW CALLED "PEWEX" STORES, AND BROADENING THE RANGE OF GOODS AVAILABLE IN THEM (SEE KRAKOW A-14 OF MAY 13, 1975). THE SHOPS DEAL IN POLISH AS WELL AS IMPORTED MERCHANDISE, AND NOW INCLUDE CLOTHING, COSMETICS, AND PROCESSED FOODS, AS WELL AS TRADITIONAL LUXURY AND TOURIST ITEMS IN THEIR PRODUCT LINES. OTHER CHAINS OF STORES, E.G., CEPELIA AND DESA, SELL FOR DOLLARS ONLY IN SOME OUTLETS, BUT OFFER EXCHANGE RATES OF 50 AND 55 ZLOTIES TO \$1.00 IN THOSE STORES WHICH ALSO SELL FOR ZLOTIES. POLAND'S FIRST VICE MINISTER OF FINANCE, MARIAN KRZAK, HAS STATED IN A PUBLISHED INTERVIEW THAT DEPARTMENT STORES ARE ALSO TO BE ALLOWED TO ACCEPT CONVERTIBLE CURRENCIES FOR CERTAIN TYPES OF MERCHANDISE AT AN EFFECTIVE EXCHANGE RATE OF 45 ZLOTIES TO \$1.00. THE PROLIFERATION OF PROGRAMS INTENDED TO MAKE HARD-CURRENCY PURCHASES OF LOCAL GOODS MORE ATTRACTIVE IS PRINCIPALLY A RESULT OF POLAND'S DETERIORATING BALANCE OF TRADE AND THE RESULTING SHORTAGE OF FOREIGN EXCHANGE. THE GOVERNMENT PLAINLY HOPES TO CAPTURE AS MUCH AS POSSIBLE OF THE HARD CURRENCY IN CIRCULATION HERE.

4. WHILE THE TOTALS IN THE PROJECTIONS FOR 1976, LISTED
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ABOVE, MIGHT BE ADJUSTED UPWARD SLIGHTLY IF THERE IS A RISE IN THE LOCAL RETAIL-PRICE INDEX, THE RELATIONSHIP AMONG THEM WOULD NOT CHANGE SIGNIFICANTLY.

5. THE TABLE OF PROJECTED DOLLAR FLOWS TO THE TREASURY SHOWN ABOVE DOES NOT TAKE INTO ACCOUNT A FACTOR WHICH MIGHT FURTHER AFFECT THOSE PROJECTIONS. PERSONNEL HAVING DIPLOMATIC PRIVILEGES CAN, WITH TOTAL IMPUNITY, PURCHASE ZLOTIES

IN WESTERN EUROPEAN CITIES AT RATES RANGING FROM 80 TO 100 ZLOTIES TO THE DOLLAR, AND IMPORT THEM IN THEIR LUGGAGE OR ON THEIR PERSONS. THE EMBASSY WOULD NOT CONDONE SUCH PRACTICES, BUT MUST ACKNOWLEDGE THAT THE TEMPTATION TO ENGAGE IN THIS KIND OF ACTIVITY WOULD MARKEDLY INCREASE IF THE ACCOMMODATION RATE WERE PLACED AT A LEVEL PERCEIVED TO BE UNREALISTICALLY LOW IN TERMS OF THE PURCHASING POWER RECEIVED PER DOLLAR. THE TEMPTATION TO USE THIS METHOD WOULD BE INCREASED BY THE FACT THAT IT IS OPENLY EMPLOYED BY THE MAJORITY OF EMBASSIES IN WARSAW, SOME OF WHICH USE THE DIPLOMATIC POUCH FOR THIS PURPOSE. DOLLARS WHICH FOUND THEIR WAY INTO THIS CHANNEL WOULD REDUCE THE POTENTIAL DOLLAR FLOW TO THE TREASURY.

6. AN ACCOMMODATION RATE OF 55 ZLOTIES TO \$1.00 IS JUSTIFIABLE IN TERMS OF THE VALUATION THE POLISH GOVERNMENT PUTS ON ITS OWN CURRENCY FOR INTERNAL ACCOUNTING PURPOSES AND THE PRICE OF IMPORTED AND MOST DOMESTICALLY-PRODUCED GOODS. THE QUESTION REMAINS WHETHER IT WOULD REPRESENT A FAIR RETURN TO THE U.S. GOVERNMENT FOR ITS NON-INTEREST-BEARING ZLOTY HOLDINGS. THE ZLOTIES CURRENTLY BEING USED FOR ACCOMMODATION EXCHANGE ARE THOSE OTHERWISE REPAYABLE IN 1993. AT A CONSERVATIVE DISCOUNT RATE OF 5 PERCENT, ZLOTIES REDEEMABLE IN FUTURE YEARS CAN BE EXCHANGED AT THE FOLLOWING RATES WHICH REPRESENT FULL CURRENT VALUE TO THE U.S. GOVERNMENT:

PAYABLE IN

1989	61.8 ZLOTIES PER DOLLAR
1990	66.2 ZLOTIES PER DOLLAR
1991	70.8 ZLOTIES PER DOLLAR
1992	75.8 ZLOTIES PER DOLLAR
1993	81.1 ZLOTIES PER DOLLAR

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7. THE SHIFT TO PAYMENT OF U.S. ANNUITIES IN POLAND IN DOLLARS, RATHER THAN U.S.-OWNED ZLOTIES, HAS SLOWED THE PROJECTED RATE AT WHICH U.S.-OWNED ZLOTIES WILL BE EXPENDED. WE CALCULATE THAT U.S.-OWNED ZLOTIES PAYABLE IN THE YEARS 1989-1993 WILL NOW BE SUFFICIENT TO COVER ALL USG EXPENSES IN POLAND FOR THE NEXT SEVERAL YEARS.

DAVIES

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